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C O N F I D E N T I A L DAMASCUS 000599

SIPDIS

STATE FOR NEA/ELA, EEB/ESC/TFS
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COMMERCE FOR BIS/TCHRISTINO

E.O. 12958: DECL: 08/19/2018
TAGS: [EAIR](#) [EFIN](#) [ETRD](#) [PGOV](#) [SY](#)
SUBJECT: MAKHLOUF AIRLINE TO PURCHASE BOMBARDIER AIRCRAFT

REF: A. DAMASCUS 70
[1](#)B. DAMASCUS 438

Classified By: Charge d'Affaires Maura Connelly for reasons 1.4(b,d)

Summary

[1](#)1. (C) Reliable media sources are reporting that the first private Syrian airline is in negotiations to purchase Bombardier passenger aircraft from the Canadian manufacturer. The airline, known as Cham Pearl, is principally backed by President Asad's cousin (and Specially Designated National) Rami Makhlouf as majority shareholder in Cham Holding Company. As with Syria's earlier privatization of the telecom sector, Makhlouf is again positioned to be the primary beneficiary of the liberalization of civil aviation in Syria. SARG officials, Syrian businessmen and foreign companies are closely monitoring the outcome of Cham Pearl's attempt to acquire aircraft as an indicator of the limits of U.S. economic sanctions, and the seriousness with which the U.S. intends to enforce them. End summary.

Makhlouf Air - Syria's First Private Airline

[1](#)2. (C) In mid-January 2008, a company named Luluat al-Cham (Cham Pearl) received the first license from the SARG Ministry of Economy and Trade to operate a private airline in Syria. As reported in ref A, Cham Pearl is a joint venture between Cham Holding Company (40 percent), Syrian Air (25 percent) and the Kuwaiti Al Aqeelah Finance Leasing and Investment Company (35 percent) with a reported initial capitalization of USD 5.2 million. At the time, Syrian Transportation Minister Ya'arob Badr claimed that Syrian Air would contribute aircraft and landing rights to Cham Pearl, but not financial liquidity. Founded in 2006, Cham Holding is an investment company with over 60 partners from prominent Syrian families. The majority shareholder in Cham Holding is the Al Mashrek Fund, a holding company itself founded in 2006 by President Asad's cousin and Specially Designated National Rami Makhlouf.

[1](#)3. (C) According to Embassy sources, the Kuwaiti partner al-Aqeelah tasked its subsidiary, Aqeeq Aviation Holding, with procuring aircraft for Cham Pearl in an effort to circumvent U.S. economic sanctions against Syria and Rami Makhlouf. We have seen multiple reports in recent months

that Aqeeq Aviation was pursuing a deal with the Canadian Bombardier Aerospace company, the world's third-largest commercial aircraft manufacturer after Boeing and Airbus.

14. (C) On August 18, the subscription-based internet newsletter The Syria Report quoted a statement from Cham Holding that Cham Pearl (a.k.a. Syrian Airways Pearl or SAP) will commence domestic flight operations with two Bombardier CRJ900 90-passenger aircraft. According to the report, Cham Pearl intends to expand its fleet to six Bombardier aircraft by the end of 2009. (Note: Although Cham Pearl's "imminent" launch has been regularly reported in the Syrian media for over six months, The Syria Report is one of the most reputable sources for economic information in Syria. End note.)

Whither Sanctions?

15. (C) Sources tell us that, prior to U.S. sanctions, Syrian Arab Airlines (Syrian Air) was one of the few profitable public companies in Syria. As reported in ref B, four years of sanctions have had the greatest, and most visible impact on Syria's national air carrier. Unable to obtain a reliable flow of spare parts, Syrian Air is now operating just six aircraft from a fleet of 15 and has reduced many of its routes. Anticipating Syrian Air's eventual demise, Makhoulf used loopholes in Syrian commercial law to obtain the first-ever license for the operation of a private Syrian airline. Travel industry contacts say that Cham Pearl intends to take over Syrian Air's most profitable routes of three hours or less -- 75 percent of Syrian Air's business -- leaving Syrian Air with the less profitable long-haul routes.

Comment

16. (C) SARG officials, Syrian businessmen and foreign companies are closely watching Cham Pearl's attempt to purchase aircraft as an indicator of the limits of U.S. sanctions. If media reports are accurate, Bombardier's willingness to sell aircraft to a private Syrian company -- particularly one affiliated with Makhoulf -- will be interpreted as a major blow to the sanctions regime. With Makhoulf still hoping to sell his GSM provider (and blocked property) SyriaTel, and the SARG all but begging for French help in acquiring new Airbus aircraft, it may be time for proactive USG action to reaffirm to the private sector, if not also to the Canadian and French governments, that we are serious about sanctions against the SARG and corrupt regime associates.
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